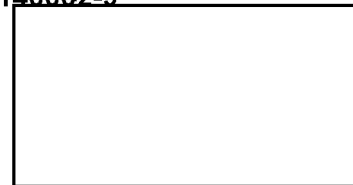




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Situation Report

IRAN

Internal order and security in Iran continue to deteriorate. It is clear that the government is now being challenged from the left and apparently from the right as well. [REDACTED]

On the left, the principal source of opposition is the Marxist terrorist group, the Chariks, who appear determined to destabilize the Bazargan government as rapidly as possible. They apparently organized the attacks on the US and Israeli Embassies and on the National Iranian Radio and Television headquarters. [REDACTED]

While government forces have generally prevailed in these instances, for some days there have been indications that Khomeini and Bazargan are worried about their ability to control leftist elements and strikers. The government appears unprepared to initiate a showdown with the Chariks, and to be tolerating some of their activities. [REDACTED]

The disarray in the government itself is a factor hampering Bazargan and Khomeini in their efforts to meet the threat posed by the Chariks. Both of them are issuing orders without assurance that they will be carried out. The next test comes tomorrow: Khomeini has appealed to all workers to return to their jobs; the responses will provide an indication of his influence. [REDACTED]

[REDACTED] believes there may be Charik supporters on the work committees who will use intimidation tactics in their efforts to continue the present economic paralysis. [REDACTED]

On the right, pro-Shah forces, possibly including some military units in the city of Tabriz, are resisting the government. There is considerable street fighting in Tabriz, but little indication of the identity of the rival groups. Separatist ethnic groups also appear to be trying to take advantage of the situation--Azarbaijanis around Tabriz and Baluchis in the southeast. [REDACTED]

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It appears that the key to the Bazargan government's effort to restore order is its ability to secure the active support of units of the Iranian military. Unless Barzargan and Khomeini are willing to use military force to put down the various dissident factions roaming the streets of Iranian cities it is unlikely that any semblance of order can be restored soon. [REDACTED]

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The new Chief of the Supreme Commander's staff, Major General Qarani, yesterday appealed for all absent military personnel to return to their units. Qarani's effectiveness is a question mark; he has been out of the military since 1958. [REDACTED]

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We have little solid information as to the likelihood of military responsiveness to any leadership at this time. The government yesterday appointed Lieutenant General Abdollah Azarbarzin as Air Force Commander. Lieutenant General Mehdiyn, who had been appointed earlier this week, apparently was not a popular choice. Nevertheless, the appointment of Azarbarzin, formerly second in command of the Air Force, reportedly is not favored by Air Force technicians (homofars) who are supporting the Bazargan government in such important ways as guarding the airport and the Prime Ministry. [REDACTED]

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It is difficult to forecast at this time if the situation has reached the lowest point or whether conditions will deteriorate further, even to the point of jeopardizing Khomeini and Bazargan. [REDACTED]

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BRIEFS AND COMMENTS

OPEC: Crude Oil Price Increase

The decision by Abu Dhabi and Qatar to increase the official price of their light crudes by about \$1 per barrel will probably be followed by other members of the Organization of Petroleum Exporting Countries. Abu Dhabi officials have indicated that the new price structure is an "interim step" that might be rescinded if market conditions ease. Unless Iranian production is stepped up or consumption is significantly restrained, however, upward market pressure on prices will continue even if other producers continue near maximum production.

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The latest increase is in addition to previously announced price hikes that ranged up to 6.4 percent over fourth quarter 1978 levels. The new price schedule calls for an average 1979 increase of about 18 percent, with prices for some crudes to be raised by up to about 24 percent. The official OPEC increases currently call for a 14.5-percent increase by yearend and an average increase of about 10 percent for all of 1979.

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Spot prices for crude have been running well above official prices. Recent spot sales of Abu Dhabi and Qatari crudes have been \$4 to \$6 per barrel above the original first quarter official prices. Premiums of this magnitude can only spur further price increases throughout OPEC.

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//The Kuwaiti press has reported that a special OPEC ministerial conference is to convene in late March to discuss the world oil market and prices. The OPEC secretariat has denied the report.

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[REDACTED]

CHAD: Deteriorating Military Situation

//The military situation in Ndjamena is deteriorating rapidly following the resumption of hostilities yesterday between supporters of President Malloum and Muslim Prime Minister Habre.

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[REDACTED]

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[REDACTED] A high-level Sudanese mediation team is reportedly on its way to Ndjamena, but the Prime Minister is unlikely to cooperate and almost certainly will press for a complete takeover of the city. / [REDACTED]

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The French have begun a limited evacuation to Gabon and have agreed to transport American and European dependents if requested. Thus far, American personnel are safe, but the Embassy has been instructed to begin evacuating all US private citizens. Paris has also sent military reinforcements to Ndjamena to bolster security around the airport and European residential areas; French troops, however, are continuing to avoid involvement in the fighting. [REDACTED]

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If Habre does take over the city, he may try to form a coalition with southern Christian tribes that have long resented political domination by Malloum and his predecessors. Habre may also be willing to negotiate with the various Muslim insurgent groups that he led until late 1977. His efforts to reach an agreement with the rebels may be complicated by his limited support and assertions by some guerrilla leaders that he sold out when he joined Malloum's government last August. The rebels, perhaps with the encouragement of their Libyan backers, may try to take advantage of the situation in the capital to make their own move against the government. [REDACTED]

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[REDACTED]

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[REDACTED]

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SOUTH KOREA - NORTH KOREA: Meeting

//Procedural questions are likely to be the focal point of discussion when representatives from North and South Korea meet publicly tomorrow at Panmunjom to address the reunification question for the first time in nearly five years.// [REDACTED]

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//Procedural questions have dominated the public exchanges between Seoul and Pyongyang since President Pak called for a revival of North-South talks on 19 January. The North, speaking through a nongovernmental front organization, has outlined a series of measures that would culminate in an "all-nation" conference, including South Korean opposition groups, later this year. The South in turn has insisted that government authorities should speak for both sides and has pressed for an early reactivation of the North-South Coordinating Committee--which was established in the early 1970s--for the initial talks.// [REDACTED]

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//Both sides have finessed the representation issue in arranging the meeting tomorrow--the North is sending officials and party members on behalf of its front, while the South will send its members from the committee. An editorial in the North Korean party daily yesterday contained some hints of flexibility, but there remain significant differences on procedural issues.// [REDACTED]

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//South Korean officials are concerned that Pyongyang will try to use the talks to achieve tactical gains, including undercutting the legitimacy of the Pak government and highlighting the North's peaceful intent in order to facilitate further US troop withdrawals.// [REDACTED]

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//Despite Seoul's initial reluctance to proceed with the meeting, the South Koreans are well aware of the danger of appearing inflexible and thus losing the propaganda initiative to the North. Both sides in fact consider public relations to be critical, and this is likely to draw out the political maneuvering for some time.// [REDACTED]

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INTERNATIONAL: Wheat Negotiations Fail

The collapse of negotiations on a new international wheat agreement this week ends for at least a year any chance of stabilizing the market and providing assurance to the poorer developing countries that they will have adequate wheat supplies. The 70-nation conference failed for the third time to agree on two key issues--the size of reserve stocks and the trigger prices that would govern accumulation and release of stocks.

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The European Community and the US finally compromised on prices last week, but the Third World rejected these prices as too high. In addition, commitments by members to the buffer stock fell far short of the 25- to 30-million-ton level the US considered essential for a workable agreement. The conference extended the 1971 wheat agreement--with no economic provisions to influence prices--through June 1980.

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Failure to obtain a new wheat agreement will hurt the poorer nations in the long run. A new agreement would have provided for doubling the food-aid stock level to 10 million tons. While wheat supplies in world markets are currently good and prices modest, this situation could be reversed within two years. Major wheat exporters will be under domestic pressures to implement policies that cut the size of their carryover stocks and maintain higher farm prices, at the expense of world food security considerations.

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NETHERLANDS: Debate on Nuclear Policy

//The Dutch Government's recent decision to endorse construction of a URENCO-sponsored uranium enrichment facility in Gronau, West Germany, has rekindled the debate over nuclear energy in the Netherlands. The opposition has introduced a resolution in Parliament that would sharply restrict the government's authority on international nuclear questions. If it passes, as seems likely, the resolution would further confuse the direction of Dutch nuclear policy and complicate relations between the Dutch and their British and West German partners in URENCO.// [REDACTED]

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//The British and West Germans, annoyed by years of Dutch ambivalence on joint nuclear issues, refused to agree formally to the conditions the Dutch Parliament wanted settled before the government approved the Gronau facility--extension of the URENCO Treaty until 1981 and clarification of URENCO export policies. The government's approval of Gronau without having secured these concessions has angered many legislators--including some of Prime Minister van Agt's Christian Democrats.// [REDACTED]

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//The government believes Parliament has neither the technical expertise nor the political competence to become involved in the intricacies of nuclear policy. The resolution proposed by the opposition Labor Party, however, would require the government to consult parliament before it makes binding decisions on URENCO's export policies. It is a direct challenge to van Agt's authority in the nuclear field.// [REDACTED]

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//If it passes, the resolution--combined with the already significant antinuclear agitation in the country--would add to the already pronounced confusion in the formulation of Dutch nuclear policy. It would complicate relations with the UK and West Germany and might jeopardize future Dutch participation in URENCO. Increased parliamentary involvement in the formulation of Dutch nuclear policy could eventually complicate Dutch participation in EURATOM and NATO's nuclear weapons programs.//

[REDACTED]

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BANGLADESH: Parliamentary Election

On Sunday, voters in Bangladesh will choose 300 Parliament members in what seems likely to be a relatively fair election. More than 2,000 candidates from 55 parties are contesting the election. President Ziaur Rahman should be able to form a government from the ideologically moderate parties willing to support him even if his own Bangladesh National Party does not win a majority of the seats. Since the presidency is independent of the Parliament, Zia--elected by a landslide last June--will remain in power regardless of the result on Sunday. Violence could erupt after the election, however, if the major opposition party charges that the vote was rigged. [REDACTED]

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FRANCE: Steel Strike

French steel workers will hold a one-day strike today to protest a government revamping of the steel industry that will entail the loss of over 20,000 jobs. The six major labor federations in Lorraine, heart of the ailing steel industry, have organized a "march on Paris" to demonstrate their strength and try to get the government to back down or at least postpone the layoffs. Representatives of the unions are due to meet with Industry Minister Giraud on Tuesday, but Giraud has already said that the government has no intention of modifying its plans. The government has announced its willingness to discuss and implement measures to ameliorate the social problems posed by its policies, but the unions have so far found these measures inadequate. The government's evident determination to continue its policy of economic rationalization almost certainly means continued confrontation in the steel sector and other industries.

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SPECIAL ANALYSIS

CHINA-VIETNAM: A Political Alternative

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The Chinese buildup along the Vietnamese border and the defensive measures being taken along the Soviet frontier amply demonstrate the seriousness of Beijing's preparations for an attack on Vietnam. The following is a speculative assessment of a complementary political strategy that Beijing may be developing--a strategy which could affect the timing, nature, and likelihood of any Chinese military action.

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[redacted] during his recent trip to the US and Japan, Vice Premier Deng Xiaoping forcefully staked out China's rationale for strong action against Vietnam. Deng termed Vietnam the "Cuba of the East" and argued that if Vietnam is not "taught a lesson" it will continue to act as the surrogate for Soviet expansionism in East Asia.

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Beijing now finds itself hoist by its own petard. Over the past several years, it has consistently criticized the West, and especially the US, for failing to take a stronger stand against growing Soviet influence in areas where China is in no position to intervene effectively. Beijing now faces what it sees as a classic example of Soviet encroachment in the one region where Chinese military power can be brought to bear. The Chinese no doubt reckon that failure to respond strongly would badly undermine their argument for Western action against Soviet inroads. In short, the need to back up their words with action seems to be impelling China toward military moves against Vietnam, despite substantial risks and costs that the Chinese openly acknowledge.

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While a Chinese limited military action would be sure to complicate Hanoi's position in Kampuchea, it is by itself unlikely to restore the "equilibrium" mentioned by Deng. A political strategy--clearly linked to the threat of force but also holding out the possibility of a peaceful resolution of the Kampuchean situation--would

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seem to be required if the Chinese are serious about attempting to redress the balance in Indochina. The Chinese indeed appear to be developing such a political strategy, centered on Prince Sihanouk and a new Kampuchean "united front," that could affect both the timing and nature of Chinese military action against Vietnam. If successful, it could lead Beijing to forego the large-scale military action against Vietnam that it seems to be preparing. [REDACTED]

A *People's Daily* editorial on Saturday strongly suggested such an approach by calling for a union of "all patriotic classes, social strata and political forces" in Kampuchea. Sihanouk's ceremonious return to Beijing earlier this week could set the stage for creation of a new Kampuchean political structure that would disavow the harsh domestic policies of the Pol Pot regime and appeal for international support. [REDACTED]

In removing or at least effectively submerging Pol Pot, the Chinese would at least rid themselves of a major propaganda and political liability. Certainly any Chinese military action against Vietnam that would seem to be aimed at restoring the Pol Pot government would receive little if any international support or understanding. [REDACTED]

The Chinese, however, may be positioning themselves for a more ambitious political move. Beijing could, for example, formally endorse and advance Sihanouk's earlier call for an international conference on Kampuchea, perhaps linking this with a call for a Vietnamese military withdrawal. Beijing could make clear that it is not demanding the restoration of the Pol Pot regime but the negotiation of a genuine coalition government headed by Sihanouk, "the undisputed representative of the Kampuchean people," and including members of the present Vietnamese-supported government in Phnom Penh. Implicit in any such proposal would be the threat of Chinese military force should Hanoi reject the proposition. [REDACTED]

Such a Chinese initiative would be certain to receive broad international support. Hanoi, which has been attempting to improve its image by playing up the Chinese threat, would be in a difficult position. Vietnam might feel it could ill afford to reject such a proposal

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out of hand; although it would not want to see its battlefield gains undone at a conference table. Conceivably Hanoi could agree to such a coalition in principle, but insist that negotiations be conducted with its puppet regime in Phnom Penh as the legitimate Kampuchean Government. By thus dragging out the talks, Vietnam might hope to maintain its forces in the field against the resistance and still not give Beijing cause to attack. [REDACTED]

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Beijing, for its part, has reason to believe that the developing situation in Kampuchea could work to its favor. It now seems clear that an effective anti-Vietnamese resistance has taken hold in Kampuchea and that China can continue to supply it and foster its growth, thus involving Vietnam in a protracted guerrilla war. Chinese Foreign Ministry guidance to officials abroad in fact has reflected such an assessment and suggested that Vietnam's Kampuchean quagmire makes direct Chinese "punishment" of Vietnam less necessary. National People's Congress Vice Chairman Tan Zhenlin yesterday noted Vietnam's difficulties in Kampuchea and signaled China's interest in a "compromise" during discussions with a visiting US Congressional delegation. [REDACTED]

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The possibility of such a Chinese political ploy is intriguing; its chances of success, of course, are highly problematical. At this point, Sihanouk appears completely unwilling to cooperate with Pol Pot in any united front arrangement. Thus, Pol Pot's continued role as leader of the Kampuchean resistance remains a major obstacle in advancing a call for negotiations. In order to reach a political solution, Vietnamese interests would have to be squarely taken into account. An indefinite Vietnamese military presence east of the Mekong and a major role for Hanoi's Khmer clients in any new coalition government might be required. Such concessions could prove unacceptable to China or its Kampuchean allies. [REDACTED]

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China nevertheless may reason that it has little to lose in advancing such a proposition. Categorical rejection by Hanoi would further isolate the Vietnamese and create a better political environment for Chinese military action against Vietnam. [REDACTED]

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In short, some variant of a proposal holding out hope for a political solution would complement rather than conflict with China's ongoing military preparations along the Vietnamese frontier. Beijing could even choose to move militarily against Vietnam before making its bid for a political settlement. The Chinese could occupy Vietnamese territory--at the risk of a Soviet response--then link their withdrawal with Vietnamese withdrawal from Kampuchea and acceptance of negotiations on a new coalition government there. Alternatively, China could make its military action contingent on Vietnam's response to a call for a political settlement. In any case, a carrot-and-stick military-political strategy has been highly characteristic of Chinese policy in the past. While Chinese forces remain in position to strike at Vietnam at any time, Beijing may engage in more political orchestration before reaching a final decision on military moves. [REDACTED]

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